

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	VILLAGE OF AHMEEK	County	KEWEENAW	Type	VILLAGE	MuniCode	42-3-010
Opinion Date	Jun 13, 2008	Audit Submitted	Jun 25, 2008	Fiscal Year	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="Qualified"/>
<input type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 64,144.00
General Fund Expenditure:	\$ 56,929.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 21,083.00
Governmental Activities Long-Term Debt (see instructions):	\$ 17,192.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JACKIE	Last Name	AALTO	Ten Digit License Number	1101022394		
CPA Street Address	200 FIFTH ST, STE 104	City	CALUMET	State	MI	Zip Code	49913
CPA Firm Name	JACKIE A. AALTO, CPA	Unit's Street Address	15 VIVIAN STREET	City	AHMEEK	Zip Code	49901

VILLAGE OF AHMEEK, MICHIGAN
Keweenaw County

FINANCIAL REPORT

February 29, 2008

VILLAGE OF AHMEEK, MICHIGAN
FINANCIAL REPORT
Year Ended February 29, 2008

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis	5
Statement of Activities – Modified Cash Basis	6
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	7
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis	8
Proprietary Funds:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13
Required Supplementary Information:	
Budgetary Comparison Schedule-Modified Cash Basis:	
General Fund	25
Major Street Fund	26
Local Street Fund	27
Federal Programs:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Schedule of Findings and Responses	31

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Ahmeek, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Ahmeek, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ahmeek, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note IC, the Village of Ahmeek, Michigan prepares its governmental activities in the government-wide financial statements and its governmental fund financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

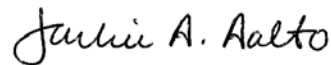
The financial statements referred to above do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. The amounts that should be recorded are not known.

In my opinion, except for the effects on the financial statements of the item described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities and each major governmental fund of the Village of Ahmeek, Michigan, as of and for the year ended February 29, 2008 and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note IC.

In addition, in my opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the Village of Ahmeek, Michigan, as of February 29, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 13, 2008, on my consideration of the Village of Ahmeek, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The budgetary comparison information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. The Village of Ahmeek has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Jackie A. Aalto, CPA

Calumet, Michigan
June 13, 2008

VILLAGE OF AHMEEK, MICHIGAN

Statement of Net Assets – Modified Cash Basis

February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 61,601	\$ 47,660	\$ 109,261
Receivables, net		20,059	20,059
Prepaid items		1,464	1,464
Deferred charges		10,949	10,949
Restricted assets – cash		18,931	18,931
Capital assets not being depreciated	8,000	47,722	55,722
Capital assets being depreciated, net	<u>197,084</u>	<u>1,882,513</u>	<u>2,079,597</u>
Total Assets	<u>266,685</u>	<u>2,029,298</u>	<u>2,295,983</u>
Liabilities			
Accounts payable and other current liabilities	167	2,874	3,041
Accrued interest payable		3,580	3,580
Noncurrent liabilities:			
Due within one year	2,649	5,000	7,649
Due in more than one year	<u>14,543</u>	<u>241,000</u>	<u>255,543</u>
Total Liabilities	<u>17,359</u>	<u>252,454</u>	<u>269,813</u>
Net Assets			
Invested in capital assets, net of related debt	187,892	1,684,235	1,872,127
Restricted for:			
Public safety	10,001		10,001
Highways & streets	40,351		40,351
Debt service		15,353	15,353
Unrestricted	<u>11,082</u>	<u>77,256</u>	<u>88,338</u>
Total Net Assets	<u>\$ 249,326</u>	<u>\$ 1,776,844</u>	<u>\$ 2,026,170</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	Total
					Governmental Activities	Activities	
Primary Government:							
Governmental activities:							
General government	\$ 30,861	\$ 2,886	\$ 6,526	\$	\$ (21,449)	\$	\$ (21,449)
Public safety	14,237			5,700	(8,537)		(8,537)
Public works	7,201	2,380			(4,821)		(4,821)
Highways & streets	20,802		18,852		(1,950)		(1,950)
Sanitation	12,531	9,647			(2,884)		(2,884)
Parks & recreation	1,378				(1,378)		(1,378)
Interest on long-term debt	738				(738)		(738)
Total governmental activities	87,748	14,913	25,378	5,700	(41,757)		(41,757)
Business-type activities:							
Water	57,846	33,464				(24,382)	(24,382)
Sewer	74,725	42,625				(32,100)	(32,100)
Total business-type activities	132,571	76,089				(56,482)	(56,482)
Total primary government	\$ 220,319	\$ 91,002	\$ 25,378	\$ 5,700	(41,757)	(56,482)	(98,239)
General revenues:							
Property taxes					19,129		19,129
State shared revenues					17,751		17,751
Interest					907	1,360	2,267
Total general revenues					37,787	1,360	39,147
Change in net assets					(3,970)	(55,122)	(59,092)
Net assets – Beginning					253,296	1,831,966	2,085,262
Net assets – Ending					\$ 249,326	\$ 1,776,844	\$ 2,026,170

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Balance Sheet – Modified Cash Basis Governmental Funds

February 29, 2008

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash	<u>\$ 21,250</u>	<u>\$ 27,503</u>	<u>\$ 12,848</u>	<u>\$ 61,601</u>
Liabilities and Fund Balances				
Liabilities				
Intergovernmental payable	<u>\$ 167</u>	<u>\$</u>	<u>\$</u>	<u>\$ 167</u>
Fund Balances				
Reserved for:				
Public safety	10,001			10,001
Highways & streets		27,503	12,848	40,351
Unreserved, undesignated reported in General Fund	<u>11,082</u>	<u></u>	<u></u>	<u>11,082</u>
Total Fund Balances	<u>21,083</u>	<u>27,503</u>	<u>12,848</u>	61,434
Total Liabilities and Fund Balances	<u>\$ 21,250</u>	<u>\$ 27,503</u>	<u>\$ 12,848</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 205,084

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds (17,192)

Net assets of governmental activities \$ 249,326

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Governmental Funds

Year Ended February 29, 2008

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 19,129	\$	\$	\$ 19,129
Licenses & permits	61			61
Intergovernmental				
Federal	5,700			5,700
State	17,751	14,270	4,582	36,603
Charges for services	12,147			12,147
Interest & rents	450	556	226	1,232
Other revenue	<u>8,906</u>	<u></u>	<u></u>	<u>8,906</u>
Total Revenues	<u>64,144</u>	<u>14,826</u>	<u>4,808</u>	<u>83,778</u>
Expenditures				
Current				
General government	18,485	677	160	19,322
Public safety	3,335			3,335
Public works	7,201			7,201
Highways & streets		12,585	8,217	20,802
Sanitation	12,531			12,531
Parks & recreation	1,378			1,378
Other	10,974			10,974
Debt service				
Principal	2,287			2,287
Interest	738			738
Capital outlay	<u></u>	<u>12,350</u>	<u></u>	<u>12,350</u>
Total Expenditures	<u>56,929</u>	<u>25,612</u>	<u>8,377</u>	<u>90,918</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,215</u>	<u>(10,786)</u>	<u>(3,569)</u>	<u>(7,140)</u>
Other Financing Sources (Uses)				
Transfers in			290	290
Transfers out	<u>(290)</u>	<u></u>	<u></u>	<u>(290)</u>
Total Other Financing Sources (Uses)	<u>(290)</u>	<u></u>	<u>290</u>	<u></u>
Net Change in Fund Balances	6,925	(10,786)	(3,279)	(7,140)

VILLAGE OF AHMEEK, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

Year Ended February 29, 2008

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total Governmental Funds</u>
Fund Balances – Beginning	<u>14,158</u>	<u>38,289</u>	<u>16,127</u>	
Fund Balances – Ending	<u>\$ 21,083</u>	<u>\$ 27,503</u>	<u>\$ 12,848</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 883

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. 2,287

Change in net assets of governmental activities \$ (3,970)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Net Assets Proprietary Funds

February 29, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 5,905	\$ 41,755	\$ 47,660
Accounts receivable, net	7,246	12,813	20,059
Prepaid items	<u>383</u>	<u>1,081</u>	<u>1,464</u>
Total Current Assets	<u>13,534</u>	<u>55,649</u>	<u>69,183</u>
Noncurrent assets:			
Restricted assets – cash	3,397	15,534	18,931
Advances to other fund		7,827	7,827
Deferred charges	5,765	5,184	10,949
Capital assets not being depreciated	5,900	41,822	47,722
Capital assets net of accumulated depreciated	<u>655,815</u>	<u>1,226,698</u>	<u>1,882,513</u>
Total Noncurrent Assets	<u>670,877</u>	<u>1,297,065</u>	<u>1,967,942</u>
Total Assets	<u>684,411</u>	<u>1,352,714</u>	<u>2,037,125</u>
Liabilities			
Current Liabilities:			
Accounts payable	1,481	587	2,068
Accrued expenses	309	497	806
Payable from restricted assets:			
Interest payable	1,080	2,500	3,580
Current portion of revenue bonds payable	<u>1,000</u>	<u>4,000</u>	<u>5,000</u>
Total Current Liabilities	<u>3,870</u>	<u>7,584</u>	<u>11,454</u>
Noncurrent Liabilities:			
Revenue bonds payable	95,000	146,000	241,000
Advances from other fund	<u>7,827</u>		<u>7,827</u>
Total Noncurrent Liabilities	<u>102,827</u>	<u>146,000</u>	<u>248,827</u>
Total Liabilities	<u>106,697</u>	<u>153,584</u>	<u>260,281</u>
Net Assets			
Invested in capital assets, net of related debt	565,715	1,118,520	1,684,235
Restricted for debt service	2,317	13,036	15,353
Unrestricted	<u>9,682</u>	<u>67,574</u>	<u>77,256</u>
Total Net Assets	<u>\$ 577,714</u>	<u>\$ 1,199,130</u>	<u>\$ 1,776,844</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds**

Year Ended February 29, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues			
Charges for sales and services	\$ 33,464	\$ 42,625	\$ 76,089
Operating Expenses			
Cost of water	21,146		21,146
Personal services	3,948	7,140	11,088
Administration	567	318	885
Utilities	858	3,429	4,287
Supplies and maintenance	3,785	8,982	12,767
Other services and charges	1,072	7,582	8,654
Depreciation	<u>21,628</u>	<u>39,424</u>	<u>61,052</u>
Total Operating Expenses	<u>53,004</u>	<u>66,875</u>	<u>119,879</u>
Operating Income (Loss)	<u>(19,540)</u>	<u>(24,250)</u>	<u>(43,790)</u>
Nonoperating Revenues (Expenses)			
Interest income	134	1,226	1,360
Interest expense	(4,671)	(7,625)	(12,296)
Bond issuance costs	<u>(171)</u>	<u>(225)</u>	<u>(396)</u>
Total Nonoperating Revenues (Expenses)	<u>(4,708)</u>	<u>(6,624)</u>	<u>(11,332)</u>
Change in Net Assets	(24,248)	(30,874)	(55,122)
Total Net Assets - Beginning	<u>601,962</u>	<u>1,230,004</u>	<u>1,831,966</u>
Total Net Assets - Ending	<u>\$ 577,714</u>	<u>\$ 1,199,130</u>	<u>\$ 1,776,844</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Cash Flows Proprietary Funds

Year Ended February 29, 2008

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 31,817	\$ 38,347	\$ 70,164
Payments to suppliers	(27,482)	(19,540)	(47,022)
Payments to employees	(3,951)	(7,509)	(11,460)
Net cash provided by operating activities	<u>384</u>	<u>11,298</u>	<u>11,682</u>
Cash Flows from Noncapital Financing Activities			
Advances to/from other fund	<u>121</u>	<u>(121)</u>	<u></u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets		(3,168)	(3,168)
Principal paid on capital debt	(1,000)	(4,000)	(5,000)
Interest paid on capital debt	<u>(4,682)</u>	<u>(7,692)</u>	<u>(12,374)</u>
Net cash used by capital and related financing activities	<u>(5,682)</u>	<u>(14,860)</u>	<u>(20,542)</u>
Cash Flows from Investing Activities			
Interest received	<u>134</u>	<u>1,226</u>	<u>1,360</u>
Net Decrease in Cash and Restricted Cash	(5,043)	(2,457)	(7,500)
Cash and Restricted Cash – Beginning	<u>14,345</u>	<u>59,746</u>	<u>74,091</u>
Cash and Restricted Cash – Ending	<u>\$ 9,302</u>	<u>\$ 57,289</u>	<u>\$ 66,591</u>
Reconciliation of operating income (loss) to net cash provided operating activities:			
Operating income (loss)	\$ (19,540)	\$ (24,250)	\$ (43,790)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	21,628	39,424	61,052
(Increase) decrease in accounts receivable	(1,647)	(4,278)	(5,925)
(Increase) decrease in prepaid items	385	854	1,239
Increase (decrease) in accounts payable	(439)	(83)	(522)
Increase (decrease) in accrued expenses	<u>(3)</u>	<u>(369)</u>	<u>(372)</u>
Net cash provided by operating activities	<u>\$ 384</u>	<u>\$ 11,298</u>	<u>\$ 11,682</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Village of Ahmeek, Michigan (the "Village") was organized on April 9, 1909 and covers an area of approximately sixty acres. The Village is governed by an elected seven member council and provides the following services: fire protection, street maintenance, sanitation, water, sewer, recreation and general administration. Except for the use of the modified cash basis of accounting for the Village of Ahmeek, Michigan's governmental activities as described in Note IC, the accounting policies of the Village of Ahmeek, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

In determining the financial reporting entity, the Village complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

Other – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. The modified cash basis of accounting is used to report the governmental activities. The accrual basis of accounting is used to report the business-type activities and the proprietary fund financial statements. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Village utilized the basis of accounting recognized as generally accepted, the governmental funds financial statements would use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The government-wide financial statements would be presented on the accrual basis of accounting.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Village has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds relate to charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with a maturity of three months or less from the date of acquisition. The Village has no short-term investments. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents and includes both restricted and unrestricted cash.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

When applicable, advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

The 2007 taxable valuation of the Village totaled \$1,322,625, on which ad valorem taxes levied consisted of 10.7019 mills for operating purposes and 2.5683 mills for sanitation. This resulted in \$14,032 for operating and \$3,367 for sanitation. These amounts are recognized in the General Fund.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

4. *Restricted Assets*

Certain resources set aside for the repair and maintenance and the repayment of the Village's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004 governmental funds' infrastructure assets were not capitalized. Infrastructure acquired since March 1, 2004 will be recorded at cost.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Infrastructure	15 to 30 years
Water and sewer system	50 to 75 years
Machinery and equipment	5 to 25 years

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond costs are deferred charges and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Village is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in the governmental funds.

B. Excess of Expenditures over Appropriations

For the year ended February 29, 2008, expenditures exceeded appropriations in the Major and Local Street Funds by \$1,180 and \$568, respectively. These overexpenditures were funded by available fund balance in both funds.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

C. Noncompliance with Reserve Account Funding

As of February 29, 2008 the Village was required to have \$3,780 in the bond reserve account for its Water Supply System Revenue Bonds. The amount the Village had was \$1,273. The Village is in the process of funding this account as required by the bond covenant.

III. Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated one bank for the deposit of Village funds. The investment policy adopted by the council is in accordance with Public Act 196 of 1997. The Village's deposits are in accordance with statutory authority.

The Village's deposits and investments at February 29, 2008 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash (checking & savings)	\$ 61,601	\$ 47,660	\$ 109,261
Restricted assets – cash	<u> </u>	<u>18,931</u>	<u>18,931</u>
	<u>\$ 61,601</u>	<u>\$ 66,591</u>	<u>\$ 128,192</u>

Custodial Credit Risk – Deposits – In the case of cash deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, all of the bank balance of \$128,306 was covered by federal depository insurance.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

B. Capital Assets

Capital asset activity for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 8,000	\$	\$	\$ 8,000
Capital assets being depreciated:				
Buildings & improvements	50,000	12,350		62,350
Machinery & equipment	<u>207,990</u>	<u></u>	<u></u>	<u>207,990</u>
Total capital assets being depreciated	<u>257,990</u>	<u>12,350</u>	<u></u>	<u>270,340</u>
Less accumulated depreciation:				
Buildings & improvements	48,050	765		48,815
Machinery & equipment	<u>13,739</u>	<u>10,702</u>	<u></u>	<u>24,441</u>
Total accumulated depreciation	<u>61,789</u>	<u>11,467</u>	<u></u>	<u>73,256</u>
Total capital assets being depreciated, net	<u>196,201</u>	<u>883</u>	<u></u>	<u>197,084</u>
Governmental activities capital assets, net	<u>\$ 204,201</u>	<u>\$ 883</u>	<u>\$</u>	<u>\$ 205,084</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 46,874	\$ 848	\$	\$ 47,722
Capital assets being depreciated:				
Building & improvements	17,097	2,320		19,417
Water system	862,675			862,675
Sewer system	1,708,945			1,708,945
Machinery & equipment	<u>128,976</u>	<u></u>	<u></u>	<u>128,976</u>
Total capital assets being depreciated	<u>2,717,693</u>	<u>2,320</u>	<u></u>	<u>2,720,013</u>
Less accumulated depreciation:				
Building & improvements	6,715	767		7,482
Water system	185,360	21,567		206,927
Sewer system	488,519	34,179		522,698
Machinery & equipment	<u>95,854</u>	<u>4,539</u>	<u></u>	<u>100,393</u>
Total accumulated depreciation	<u>776,448</u>	<u>61,052</u>	<u></u>	<u>837,500</u>
Total capital assets being depreciated, net	<u>1,941,245</u>	<u>(58,732)</u>	<u></u>	<u>1,882,513</u>
Business-type activities capital assets, net	<u>\$1,988,119</u>	<u>\$ (57,884)</u>	<u>\$</u>	<u>\$1,930,235</u>

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 565
Public safety	<u>10,902</u>
Total governmental activities	<u>\$ 11,467</u>
Business-type activities	
Water	\$ 21,628
Sewer	<u>39,424</u>
Total business-type activities	<u>\$ 61,052</u>

C. Internal Receivables, Payables and Transfers

The composition of interfund balances as of February 29, 2008 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Water Fund	<u>\$ 7,827</u>

The outstanding balances between funds represent routine and temporary cash flow assistance until funds are transferred.

Interfund transfers:

Transfer out:	<u>Transfer In</u>
	<u>Local Street Fund</u>
General Fund	<u>\$ 290</u>

D. Long-Term Liabilities

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

The Village also issues revenue bonds to provide for capital acquisition and construction. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
Governmental Activities:					
Loan – fire truck	2/1/10	3.75%	\$2,000-3,000	\$ 25,000	\$ 17,192
Business-type Activities:					
2001 Issue – Water Supply System Revenue Bonds	3/1/41	3.25%	\$3,000-11,000	\$ 259,000	\$ 96,000
1988 Issue – Sewage Disposal System Revenue Bonds	1/1/22	5.0%	\$1,000-4,000	\$ 83,000	\$ 150,000

Annual debt service requirements to maturity for the above bonds and contractual obligations are as follows:

<u>Year Ended February 28,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,649	\$ 376	\$ 5,000	\$ 11,798
2010	2,480	545	5,000	11,553
2011	2,573	452	5,000	11,708
2012	2,669	356	5,000	11,463
2013	2,769	256	7,000	11,195
2014-2018	4,052	152	37,000	50,825
2019-2023			43,000	41,225
2024-2028			61,000	29,023
2029-2033			37,000	14,715
2034-2038			21,000	6,953
2039-2042			20,000	1,800
	<u>\$ 17,192</u>	<u>\$ 2,137</u>	<u>\$ 246,000</u>	<u>\$ 202,258</u>

Long-term liability activity for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Loan – fire truck					
Interest is 3.75% to be adjusted February 2010, matures February 2015	<u>\$ 19,479</u>	<u>\$</u>	<u>\$ (2,287)</u>	<u>\$ 17,192</u>	<u>\$ 2,649</u>

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 29, 2008

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
<i>Revenue Bonds:</i>					
Water Supply System					
Interest is 4.5%, matures June 2041	\$ 97,000	\$	\$ (1,000)	\$ 96,000	\$ 1,000
Sewage Disposal System					
Interest is 5.0%, matures November 2031	<u>154,000</u>	<u></u>	<u>(4,000)</u>	<u>150,000</u>	<u>4,000</u>
Business-type activities – long-term liabilities	<u>\$ 251,000</u>	<u>\$</u>	<u>\$ (5,000)</u>	<u>\$ 246,000</u>	<u>\$ 5,000</u>

IV. Other Information

A. Risk Management

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and employee injuries (workers' compensation).

The Village has purchased commercial insurance. The Village pays an annual premium for its insurance coverage. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amount, if any to be immaterial.

Required Supplementary Information

VILLAGE OF AHMEEK, MICHIGAN

**Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 14,158	\$ 14,158	\$ 14,158
Resources (Inflows):			
Taxes	16,000	19,329	19,129
Licenses and permits			61
Intergovernmental			
Federal			5,700
State	18,453	17,751	17,751
Charges for services	12,300	12,146	12,147
Interest and rents	3,900	412	450
Other revenue	<u>3,250</u>	<u>8,386</u>	<u>8,906</u>
Amounts Available for Appropriation	<u>68,061</u>	<u>72,182</u>	<u>78,302</u>
Charges to Appropriations (Outflows):			
General government	17,200	18,119	18,485
Public safety	2,812	3,732	3,335
Public works	8,300	7,610	7,201
Sanitation	12,300	12,531	12,531
Parks & recreation	900	1,378	1,378
Other	12,627	12,093	10,974
Debt service	3,200	3,025	3,025
Transfers out			<u>290</u>
Total Charges to Appropriations	<u>57,339</u>	<u>58,488</u>	<u>57,219</u>
Ending Budgetary Fund Balance	<u>\$ 10,722</u>	<u>\$ 13,694</u>	<u>\$ 21,083</u>

VILLAGE OF AHMEEK, MICHIGAN

**Budgetary Comparison Schedule
Major Street Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 38,289	\$ 38,289	\$ 38,289
Resources (Inflows):			
Intergovernmental revenue - State	13,500	14,270	14,270
Interest	<u>500</u>	<u>556</u>	<u>556</u>
Amounts Available for Appropriation	<u>52,289</u>	<u>53,115</u>	<u>53,115</u>
Charges to Appropriations (Outflows):			
General government	600	640	677
Highways & streets	12,030	11,442	12,585
Capital outlay	<u> </u>	<u>12,350</u>	<u>12,350</u>
Total Charges to Appropriations	<u>12,630</u>	<u>24,432</u>	<u>25,612</u>
Ending Budgetary Fund Balance	<u>\$ 39,659</u>	<u>\$ 28,683</u>	<u>\$ 27,503</u>

VILLAGE OF AHMEEK, MICHIGAN

**Budgetary Comparison Schedule
Local Street Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 16,127	\$ 16,127	\$ 16,127
Resources (Inflows):			
Intergovernmental revenue – State	4,150	4,872	4,582
Interest	200	226	226
Transfers in			290
Amounts Available for Appropriation	<u>20,477</u>	<u>21,225</u>	<u>21,225</u>
Charges to Appropriations (Outflows):			
General government	200	160	160
Highways & streets	<u>3,950</u>	<u>7,649</u>	<u>8,217</u>
Total Charges to Appropriations	<u>4,150</u>	<u>7,809</u>	<u>8,377</u>
Ending Budgetary Bund Balance	<u>\$ 16,327</u>	<u>\$ 13,416</u>	<u>\$ 12,848</u>

Federal Programs

VILLAGE OF AHMEEK, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Village Council
Village of Ahmeek, Michigan

I have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Village of Ahmeek, Michigan, as of and for the year ended February 29, 2008 which collectively comprise the Village of Ahmeek, Michigan's basic financial statements, and have issued my report thereon dated June 13, 2008. The report was a special report on the Village of Ahmeek, Michigan's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and was qualified because the basic financial statements do not include the Volunteer Firemen's Fund which should be included to conform with accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Ahmeek, Michigan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Village of Ahmeek, Michigan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Village of Ahmeek, Michigan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Ahmeek, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Ahmeek, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Village of Ahmeek, Michigan's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Ahmeek, Michigan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item 08-01 to be a material weakness.

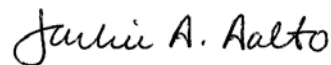
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Ahmeek, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to the management of the Village of Ahmeek, Michigan in a separate letter dated June 13, 2008.

The Village of Ahmeek, Michigan's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Village of Ahmeek, Michigan's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Village council, management, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
June 13, 2008

VILLAGE OF AHMEEK, MICHIGAN

Schedule of Findings and Responses

Year Ended February 29, 2008

FINDINGS – FINANCIAL STATEMENT AUDIT

08-01 Ability to Prepare Financial Statements

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause: The condition noted in the preceding paragraph exists at the Village of Ahmeek. The cause for this condition is because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditor than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Response: Due principally to the small size of the Village and the limited funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

08-02 Lack of Segregation of Duties

Criteria: Management is responsible for protecting the Village's assets. As such, a proper segregation of duties is needed to ensure protection and accurate financial reporting. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

VILLAGE OF AHMEEK, MICHIGAN

Schedule of Findings and Responses

Year Ended February 29, 2008

Cause: The Village has a limited number of personnel available to adequately segregate all incompatible duties.

Effect: As a result of this condition, the same individuals are responsible for all accounting functions. The result is the possibility that intentional or unintentional errors could be made and not be detected.

Response: As noted above, due to the small size of the Village and the limited funds of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

To the Village Council
Village of Ahmeek, Michigan

In planning and performing my audit of the Village of Ahmeek, Michigan as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered the Village of Ahmeek, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, I do not express an opinion on the effectiveness of the Village's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, I identified certain deficiencies in internal control that I consider to be significant deficiencies and one deficiency that I consider to be a material weakness. Please refer to the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards* for references to the significant deficiencies and material weakness identified.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

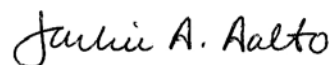
In addition, I noted other matters involving the internal control and its operations that are reported below:

1. The governmental activities in the government-wide financial statements and the governmental fund financial statements of the Village are prepared on the modified cash basis of accounting. I recommend that the Village prepare the government-wide financial statements on the accrual basis of accounting and the governmental fund financial statements on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
2. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.

3. The financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. I recommend that future financial statements of the Village include a management's discussion and analysis.
4. P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the current fiscal year, expenditures exceeded appropriations in the Major and Local Street Funds by \$1,180 and \$568, respectively. I recommend that the Village Council monitor actual and budgeted expenditures to ensure compliance with State law.
5. As of February 29, 2008 the Village was required to have \$3,780 in the bond reserve account for its Water Supply System Revenue Bonds. As of that date the Village had \$1,273. I recommend that the Village fund the account as required by the bond covenant.
6. Currently, the water/sewer/sanitation billing and collecting is being done by one person. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud.
7. At present, the Village prepares its records using manual spreadsheets. I recommend that the Village consider changing to an integrated business software system.
8. Currently, the Village does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Village Council, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
9. The Village Council does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, I recommend the Village Council consider the number and location of financial institutions to be used by the Village with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area. Based on these considerations, I recommend the Village Council annually authorize the financial institutions to be used for Village cash management.

This communication is intended solely for the information and use of the Village council , management, federal and state awarding agencies, and if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Village personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
June 13, 2008